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AUTHOR Kourilsky, Marilyn; And Others
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ABSTRACT

The New Youth Entrepreneur curriculum is a series of 12 youth-oriented educational modules containing instructional materials, learning activities, and checkup exercises designed to teach students key elements of entrepreneurship. This document is the fifth module, and introduces students to the financial issues involved in starting a business, including how much money is required, how to acquire cash, and alternative methods of financing. The first section provides initial planning steps for determining how much money will be needed for starting a business, while the second presents activities illustrating strategies for starting a business without cash, including bartering, sharing resources, and gaining the goodwill of others. The third section focuses on occasions when it will be necessary to obtain money, and discusses the advantages and disadvantages of co-venturing, obtaining loans from banks, and receiving government money. This section also provides three exercises to help students analyze the terms of lending agreements and a description of illegitimate lenders, or "loan sharks." The final section discusses strategies for obtaining money when other methods are not possible, including selling personal items to raise money and getting a temporary job to finance a venture. (CELCEE, an Adjunct ERIC Clearinghouse on Entrepreneurship Education) (MAB)

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The New Youth Entrepreneur

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Money To Get Started

Module 5

JC 960 241

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For More Information Contact

EDTEC

Education, Training & Enterprise Center, Inc.
313 Market Street
Camden, NJ 08102
Phone: (609) 342-8277
Fax: (609) 962-8110

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THE NEW YOUTH ENTREPRENEUR

Money to Get Started

Module 5

Created By

CEL

Marilyn Kourilsky

Carol Allen

EDTEC

Aaron Bocage

George Waters

Consultant

John Clow

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Money To Get Started

- How much do I need to get started?
- How can I start and run a business without cash?
- When will I absolutely need money?
- What are some ways to get cash to start a business?
- What if I need money and I can't barter or borrow?

How Much Do I Need to Get Started?

Don't Be Caught By Surprise !!!
PLAN
on needing money to start your
BUSINESS

If you CAN get started without spending money...GREAT!!
If you CAN'T...PLANNING AHEAD will get your business going!!

How Much Do I Need to Get Started?

ANGELA FACES A PROBLEM

Angela lives in a community which has a lot of senior citizens. She enjoys talking with them and learning about how they were raised and what they liked when they were young people. On several occasions, many of the home-bound citizens mentioned their inability to get items to one another. Angela thought about this for a while, did some analysis, and then decided that a bicycle delivery service might be a good business in her town. In order to start the business, she had to get her old bicycle fixed, install an answering machine in her home to take orders, get a basket for the bicycle, and develop some form of advertising.

She has a major problem. She doesn't know how to get all the things necessary to start her business. In this module, we will be developing your ability to solve a problem such as Angela's. By the end of the module, you should be able to:

1. Explain the initial planning steps for determining what you need to start a business.
2. Name different ways bartering can be used in getting all or some of what you need to start a business. Describe at least one advantage and one disadvantage of using this method of securing items for beginning a business.
3. Describe how goodwill can help the young entrepreneur when starting a business.
4. Explain how sharing resources with other people can be of assistance in starting a small business.
5. Name and describe various places where one can get loans for starting a business. Describe at least one advantage and disadvantage of using this method for securing items for starting a business.
6. Differentiate between a loan shark and a commercial loan department of a financial institution.

How Much Do I Need to Get Started?

7. List features which should be in a loan contract and evaluate several loan agreements as to whether they are sufficiently complete.

8. Name and describe other sources for raising money if bartering, goodwill, sharing resources, and loans do not provide enough resources to start a business.

9. Apply the understanding covered in this module to a case problem focusing on a young person starting a business.

How Can I Start and Run a Business Without Cash?

Getting back to Angela, she is really wondering how she can get the items that she believes are needed to start her business. This is a common step that all entrepreneurs must face when starting a business. It is a tough step. Some people call this the initial financing of the business. As you will see later, it may not always involve getting money to secure those items that you need, especially for a small business started by a young person.

The first step is to determine exactly what you will need to start a business. If you recall, Angela has already done this. Remember? She indicated that some of the things she needed were having her bicycle fixed, getting a telephone answering machine and a basket for the bicycle. Notice that all of these are considered capital goods — goods that are used to make other goods and services. Then she has to determine whether she needs these items right away to start her business or if some of them can wait until later to be paid for from income from customers. Let's suppose that Angela decides that getting the bicycle fixed and getting the basket must be done prior to starting a business.

The second step is to put some type of value on the items that you will need. It does not have to be an exact amount, but a ballpark figure.

The next step is to determine how much money you have to put into the business. A close look at your savings account and/or piggy bank will help out in this regard. All of your savings you might not want to use for the business. Some of it you may want for an emergency fund or for savings for college.

The fourth step is to compare the money you have and what you need for getting the business going. Most people don't have enough on their own to get the business started. Even if they have enough money, they may figure out another way to get some of the items that they need to get the business started.

Many young people, such as Angela, have little or no money so they have to go to the next step of determining how they will get the money and capital goods to start their business.

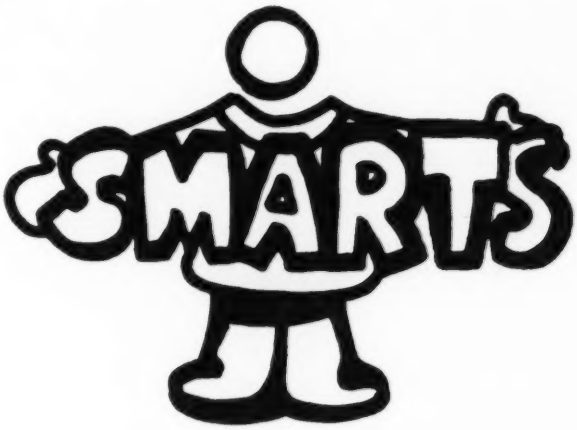
How Can I Start and Run a Business Without Cash?

When can you do without money?
Can you start and run your business without cash?
YESS!
Use smarts for cash!

The more often you substitute "smarts" for cash, the longer your cash will last.

Ways to get things done without paying in cash:

1. Barter (trade)
   - Things for things
   - Things for services
   - Services for things
   - Services for services
2. Goodwill
3. Promises



How Can I Start and Run a Business Without Cash?

BARTERING

The oldest way to get things done is through BARTERING (trade, "deal") for them. You give away something to get something. No cash is exchanged.

EXAMPLES:

A. Things for Things

You can trade things for other things. Angela may trade some used CD's that she has for a used bicycle basket.

B. Things for Services

You can barter things for services when you need them. In the case of Angela, she might trade some books to Joel in exchange for his repairing her bicycle.

C. Services for Things

In this situation, the creative entrepreneur may exchange his/her services for some products that are needed. Angela may agree to take care of the dinner dishes for the next month, if her brother Julio will design a creative business card for her.

D. Services for Services

Maybe you can trade your services for the services you need. Angela might agree to tutor a friend in mathematics if the friend will help her set up a way to keep financial records on this new business.

How Can I Start and Run a Business Without Cash?

PROMISES

You can get the help or services necessary to start a business by making promises to give special "deals" on prices or services later after the business has started. For example, Angela might be able to pay half of the fee to the printer for the business cards now and "pay" the rest by delivering printing orders to the printer's customers at a reduced rate.

Promises of future work or labor are tricky. You must be prepared to pay up when the time comes. The time may come when you are busiest, or when you can least afford the additional expense.

When you barter, keep your promises to the smallest detail of your agreement. Then, if you possibly can, add a little extra (another few hours, another book, or whatever). Why? It is a good way to keep a good business reputation.

NOTE: FOR BARTERING TO WORK,

SOMEONE ELSE HAS TO WANT WHAT YOU HAVE.

Sometimes it is difficult and time consuming to find someone who wants what you have to trade.

GOODWILL

Look around. There are some people who will help a young entrepreneur simply for the pleasure of doing it. This "goodwill" can be found at the strangest times and places. Some people will give things, help or services free, just to move you on a bit toward success. This is one of the advantages you have of being a "young entrepreneur".

How Can I Start and Run a Business Without Cash?

Check Point! Check Your Understanding

1. What is the difference between a capital good and money?

2. What are the initial steps for determining what you need for starting a business?

3. How can some people start a business with little or no money?

4 Define bartering and indicate a benefit and a difficulty in using the bartering process.

5. Name at least three ways individuals can secure items needed to start a business without using cash.

How Can I Start and Run a Business Without Cash?

ACTIVITY:

Sonia has a business and her business is selling snacks on the school bus. She sells a product.

Curt has a business washing and detailing cars. He sells a service.

Imagine YOU are giving advice to Sonia and Curt. First determine what items they might need to start their businesses. What do you think they could barter when they didn't have enough cash to buy what they needed? What would YOU advise THEM to do?

	Sonia's Business	Curt's Business
Things for Things:		
Things for Service:		
Service for Things:		
Service for Service:		
Getting Goodwill:		
Making (and keeping) Promises:		

How Can I Start and Run a Business Without Cash?

Special Ways to Barter or Share (Sharing Resources)

Instead of working alone all the time, look around. Who has a service or a location that you can make a deal to SHARE?

EXAMPLE: A Post Office Box

Your business has to have an address, someplace you can receive letters mailed to you. You know someone who has a post office box. Try to talk this person into letting you use it for your business needs.

1. Maybe you can make a trade: barter your picking up their mail and taking it to them for the use of the box's address.
2. Maybe you can SHARE the costs of the box. That would cost less than owning one by yourself.

EXAMPLE: A Mailing Address

Perhaps your business runs better if it has a street address. Could you take letters and things to be mailed to the post office for someone, in exchange for the resident at that address collecting and holding your mail?

EXAMPLE: A Telephone

Many folks have a telephone, but it is silent a good part of the day. If you need a phone, could you barter something to have someone take a few of your calls?

In the case of Angela, she needed a telephone so people could contact her. Since both of her parents worked out of the home, she needed an answering machine so that some of the requests would not be missed. She might find that her parents would be willing to buy the answering machine for purposes of the home and Angela's business if Angela would be willing to list all of the calls to be returned when she arrived home from school. Notice the trading of the partial use of the good in exchange for a service.

How Can I Start and Run a Business Without Cash?

Check Point! Check Your Understanding

1. What is meant by getting someone to share resources (e.g., a post office box) with you when starting a business?

2. Put your thinking cap on and indicate at least one disadvantage of obtaining some of your capital goods (e.g., your telephone) on a sharing basis.

How Can I Start and Run a Business Without Cash?

ACTIVITIES: Here are some things to try.

1. Find out the costs for post office boxes at your nearest post office (stand in line at the postage window and ask).

   What are the different sizes?

   _____

   _____

   What does each cost?

   _____

   _____

   How often do you have to pay to rent one?

   _____

   _____

2. Are there any "Small Business Service Centers" near your home or school? List their names and phone numbers on 5" X 8" cards, along with this other information about them.

   Do they sell post office box services? YES ___ NO ___

   What are the costs for their sizes of mail boxes?

   _____

   _____

   What other services do they offer to people buying their services?

   _____

   _____

   _____

How Can I Start and Run a Business Without Cash?

3. Where would YOU go to find a place to get your mail, if you couldn't rent a post office box?

_____

_____

4. Where could you go to find a phone number where your customers could call you?

_____

_____

Where could you find a person to take your messages?

_____

_____

What would you have to BARTER to get these services without paying cash for them?

_____

_____

_____

How Can I Start and Run a Business Without Cash?

Special Persons as a Resource for Sharing

ACTIVITY:

Write down people you know who have a home or apartment, and who might be interested in lending you things such as address, telephone, or space that you need to start a new business.

Think especially about:

1. People who have time on their hands, or do not get out of their homes very often, such as retirees.
2. Disabled persons, or those recovering from an accident, or who can't leave their homes.
3. People in your own home.

List those who come to mind for each category. Then list a good or service each of them could share with you in order to get the business started.

Take a chance and contact some of these people. They may be interested in helping with your business.

REMEMBER: Being old, handicapped, or shut-in, doesn't mean being uninterested in doing things with young entrepreneurs.

Introduce yourself!

Trade your labor (cutting grass, cleaning windows, running errands . . .) for the use of a phone, an address, perhaps some space or a chair and table.

You might discover that you've picked up a partner, or someone who has experiences valuable to your efforts and you have not had to spend a dime of your own money.

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How Can I Start and Run a Business Without Cash?

TOUGH IT OUT IF YOU CAN!

Whatever you do, try as many ways as you can to STRETCH your cash by bartering, promising, and gaining goodwill. Each bit of money, once gone, won't come back until you earn some more. That could take a while. But, you've always got your labor and your "smarts".

When Will I Absolutely Need Money?

Can I Always Get By Without Spending Money?

Businesses started by young entrepreneurs often need very little money. Young people can trade or deal or make promises for many products and services needed to run a business.

But, sometimes you will need CASH money.

$ $ YESS!

SOME THINGS MUST BE PAID IN CASH

EXAMPLES:

1. Licenses and permits to do business: these permits usually don't cost a lot, but you can't barter or trade for them. They must be paid for in cash.
2. If your business has to have a phone or utilities of its own, the phone or utility companies will ask you for the money you owe. Trades and deals won't work.

When Will I Absolutely Need Money?

Who Might Help You When You Need Money For Your Business?

No way around it. Sometimes you MUST have CASH money! If you don't have it in your pockets, in a savings account, or under your bed, you'll have to get it somewhere else. That "somewhere" else generally is CO-VENTURING, BORROWING, SELLING what your have, or WORKING for a while in order to save.

CO-VENTURING AS A WAY OF RAISING MONEY

In co-venturing, more than one person puts money into the business. This means that the business will have more than one owner. When someone puts money into the business as a co-venture, the promise is not made that the money they put into the business will be returned to them. Also, no return on their money is guaranteed. But the person putting in the money generally gets some other benefits, including a say-so as to how the business is run as well as a share in the profits. The downside is that they may also have to share the loss if the business does not do well. This may mean that they will lose all of the money that they put into the business.

Co-venturing may very well be a good idea if you can't borrow the money or you find someone who not only has some money that they want to invest but also the interest and abilities needed in the business. As an example, Steve, Juan, Sam and Rachel all want to start a business. No one has enough money to turn their idea into cash by themselves. So Steve (who drives and has an old car) contributes transportation. Juan has $100 and a "good buddy" who will let him have gasoline at discount. Sam has another $200 and the use of half of his family's heated, air-conditioned garage. Rachel gives her year's savings of $175 and her long list of business contacts. They talk — and maybe argue some — and decide to go into business together.

Angela, for example, might want to bring her brother into the bicycle delivery business since he is interested in it, has a new classy bicycle, and $200 in savings which he would like to put into the business. She would not have to worry about getting her bicycle fixed right away if she brought him into the business.

When Will I Absolutely Need Money?

Also, she would have someone who owns a fast bicycle for the deliveries. Another advantage is that he has the money to go toward getting the items necessary for starting the business. Before doing this, though, Angela must trust her brother as a business associate since they would be in business together. This means that each owner is responsible for the other's actions. Also, she must be willing to share the profits and the decision making.

When Will I Absolutely Need Money?

Borrowing as a Way of Raising Money

Borrowing money involves getting a loan from another person or institution with the idea of paying it back at a later time. There are several keys to borrowing money successfully which include:

1. Make sure that you borrow the minimum you need to start or keep your business.

2. Keep track of exactly what you did with the money from the first day on until you pay it back.

There are many different sources for borrowing money which include:

Borrowing from Friends: It's been said that you discover who your friends really are when you ask to borrow money from them. OK, so there aren't many. Those who say "yes" are a real source of help.

Borrowing from Family: Your parents and family are one of your best resources for business start-up money, or for emergency keep-going funds. They know you like no one else ever will. Be prepared, though, to have to answer questions from them. Sharp questions! They've seen you succeed, but they've also watched you "blow it". Offer your family the same courtesy you would give to a co-venture group or to a banker. Prepare yourself ahead of time. Be ready to answer the question "WIIFM"? (What's in it for me?)

When Will I Absolutely Need Money?

If your parents can't help you now, then with an OK from your parents, try an uncle, cousin, aunt, or grandparent.

Borrowing from Outside Groups: (Other than financial institutions). What if you, your family, and your friends are broke? Now is the time to widen your search for business financing.

One kind of people to seek out are those who help because of good will. You need to find a group of people, probably mostly strangers to you, who have helped other young entrepreneurs before. You will be looking for professional business clubs (Rotary, Chamber of Commerce, etc.) or associations that are interested in what you are planning to do. This is one place where being a young entrepreneur can really pay off. Many business groups are interested in helping the young people in the community.

As an example, Angela might want to see if her local Chamber of Commerce, Office for Senior Citizens, Rotary Club, or AARP Chapter might be interested in helping her start her business.

When borrowing from friends, family and outside community groups, the interest paid on the loan is generally lower than from financial institutions.

When Will I Absolutely Need Money?

SUGGESTION

If you are seriously considering starting a business for yourself,
EVEN IF YOU THINK YOU WILL NEVER
HAVE TO BORROW MONEY,
you should make a list of people who might loan you money. Be sure to think of all the kinds of people we've suggested:

- Friends
- Family (close relatives, distant relatives)
- Outside Groups

When Will I Absolutely Need Money?

Check Point! Check Your Understanding

1. How is co-venturing different from borrowing money?

2. Even if they had the money, why may friends and family not loan you the money to start your business venture?

3. Joel indicates that he is interested in putting money into your business and helping you with establishing and running the business. Your business is in desperate need of the money which you know that he has. He also seems to be quite good at selling ideas and items to others. He has a very winning personality which you could use in your new business. Joel has had difficulty, though, keeping some of the grocery store jobs he has had; he seems to get tired of doing a job and then quits reporting to work. There is also a rumor that Joel brags about stealing from his former employers. Indicate whether you think you should co-venture this business with Joel. Support your decisions with reasons.

When Will I Absolutely Need Money?

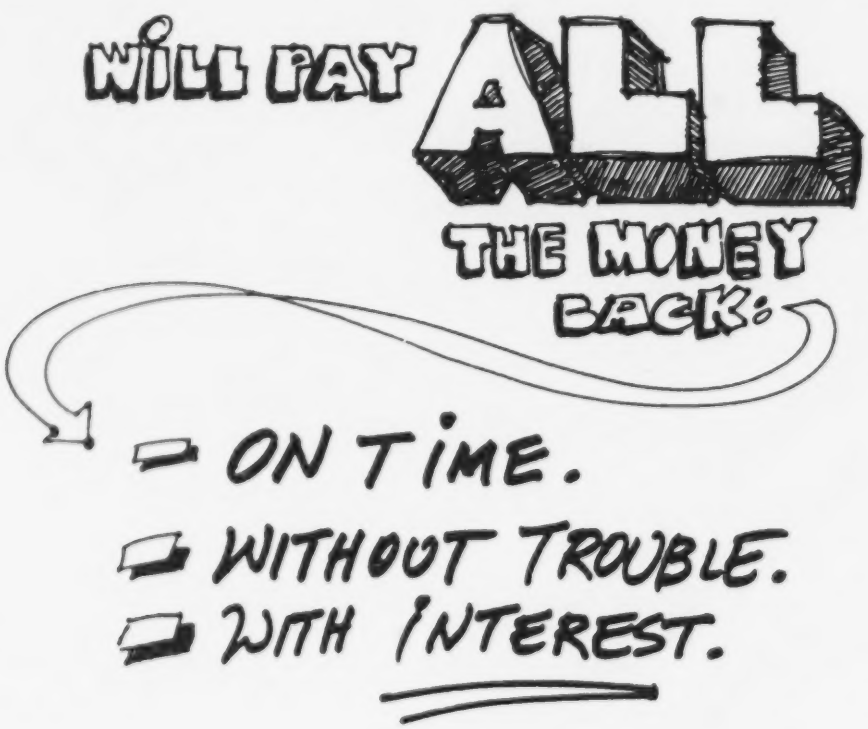
Borrowing from Institutions: If your friends, parents, relatives, or other groups cannot help you with your start-up or operating cash needs, then you must try the LEGAL sources that are in business to lend money. These sources are:

- Banks
- Savings and Loans
- Commercial Lending Companies
- Credit Unions

Only go to these sources to borrow when you just CAN'T get your cash any other way, and you can't wait at all!

BANKS DON'T LEND MONEY FOR FREE ! !

Institutions only loan money to people they think:



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When Will I Absolutely Need Money?

What's Interest?

INTEREST — is what it costs you to BORROW a certain amount of MONEY for a certain amount of TIME.

INTEREST — is what it costs you to use someone else's money. It is like the rent for using someone else's money.

You pay back the loaned money AND you pay back the interest, too. The person or lending source makes their profit from the interest you pay.

EXAMPLE:

YOU BORROW $5

+ INTEREST AT 10% =

YOU PAY BACK $5.50

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When Will I Absolutely Need Money?

INTEREST

Let's look at WHAT IT WOULD COST YOU TO BORROW $100 AT SEVERAL DIFFERENT RATES OF INTEREST FOR ONE YEAR.

What you borrow for 1 year	Interest rate the Bank charges	Interest you must pay	Total You must pay back by end of 1 year
$100	10%	$10	$110
$100	12%	$12	$112
$100	15%	$15	$115
$100	20%	$20	$120

The law sets limits on how much banks, savings and loans and commercial lenders can charge for using their money.

Even so, these institutions have many LEGAL ways of making sure you pay **A LOT** for the money you borrow. Institutions may charge different rates of interest so SHOP AROUND!!

When Will I Absolutely Need Money?

PROBLEMS WITH BORROWING FROM INSTITUTIONS

Other than paying high interest rates, the problem with borrowing from institutions is that most will not lend to young people (minors). In this case, you must find an adult, someone the institution thinks IS a good risk, and convince this person to "CO-SIGN" your loan.

The co-signer is promising to pay all the money back to the lending source, on time, plus interest, if you don't pay it back. When one person co-signs for another person's loan, the co-signer is really saying, "Yes, I think this young entrepreneur is a good risk. He or she WILL pay back the loan with interest. If I am wrong, and they DON'T pay, I will pay you back myself!"

You can be sure that any person who co-signs a loan agreement with you really thinks you are trustworthy, and that your business is a good one!

When Will I Absolutely Need Money?

Write It Down

You'll have to take some precautions when you finance your business. In any deal, you must WRITE DOWN ALL THE IMPORTANT DETAILS. That especially goes for deals involving money.

WHY?

a. Because memory fades over time (days, hours). People forget dull things like money matters, until the time comes to repay.

b. Because each person involved with a deal remembers things differently.

PUT YOUR AGREEMENT AND TERMS DOWN ON PAPER. An agreement written down on paper and signed by both persons or groups is a **CONTRACT.**

If you borrow from commercial sources (bank or savings and loan), they will put details of any loan or agreement down on their forms, and they will give you a copy. Their form, when signed by you and by one of their people, is a CONTRACT. When YOU make an agreement with someone else, YOU are making a CONTRACT, too. You must write down:

- A brief but clear description of WHAT the loan is for.
- A complete description of any **COLLATERAL** given (Collateral is given as security for the loan in case you cannot repay the loan. The collateral may be sold to help pay off the loan. Julio might be asked to pledge his bike to the bank in case he and his sister are unable to pay off their loan.).
- Exactly HOW MUCH MONEY you got, or what THING(S) were borrowed.
- How much INTEREST you will pay, stated as a percent (%) figure of the total amount borrowed.
- The total amount to be repaid (the amount you borrowed plus interest).
- Exactly WHEN you are to pay back the money or give back the thing(s).
- Exactly WHEN you are to pay the interest.
- HOW LONG (in months or years) the loan is to last.
- The exact START DATE, and the exact ENDING DATE of the agreement.

When Will I Absolutely Need Money?

Everybody involved in the contract gets a copy of the agreement written or typed IN INK. Everybody signs and dates ALL copies, IN INK. Witnesses must sign, too.

A WITNESS is some person who:

- Isn't involved in the loan/contract.
- Is honest.
- Understands both sides.
- Doesn't owe the lender or you.

A witness is someone who can attest to a fact or an event happening.

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When Will I Absolutely Need Money?

Exercises in Financing a Business (From the Viewpoint of a Lender)

One person, Julius J. Joker, has started a company — JOLLY JOKER ENTERPRISES — and is borrowing things or money from you.

You think that "3J" is honest, but he forgets pretty easily. (He returned the yellow-striped shirt he borrowed a year ago;...except that you lent him a black sweatshirt!)

You insist, before you lend anything else to him, that "3J" give you an agreement so that both of you have a record of what was borrowed.

Using the words and advice you've just learned about borrowing between two business people, answer the questions following each of the agreements (CONTRACTS):

When Will I Absolutely Need Money?

EXAMPLE 1:

A few weeks ago, "3J" wanted to use your pocket calculator to add up his business records. You asked for an agreement, before you handed over the calculator. So "3J" pulled out a pencil, and wrote (on the back of an old envelope):

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When Will I Absolutely Need Money?

QUESTIONS ABOUT EXAMPLE 1:

What are the important things that are wrong with this agreement?

Circle the parts of this agreement (CONTRACT) that are present:

- Everything written down
- Clear description of reason for loan
- Clear description of collateral
- Exactly what items/money were borrowed
- How much interest was to be paid
- When the borrower was to give back the item/money
- When the interest was to be paid
- How long the loan was to last
- The exact start date of the loan
- The exact end date of the loan
- All copies done in ink
- Exactly identical copies for everyone involved
- Signatures and dates for everybody involved
- Witnesses

When Will I Absolutely Need Money?

EXAMPLE 2:

"3J" is back. JOLLY JOKER ENTERPRISES is growing, and Mr. Joker needs to borrow $250 for office supplies. You think long and hard, but say OK, as long as you get a written agreement.

Julius sat down and typed out the following:

"I, Julius J. Joker, president and owner of Joker Enterprises, agree to borrow $250, at a rate of 10% per year, from (your name). I will pay (your name) $250 on (date one year from now), or I will supply Joker Enterprises' goods of the same value.

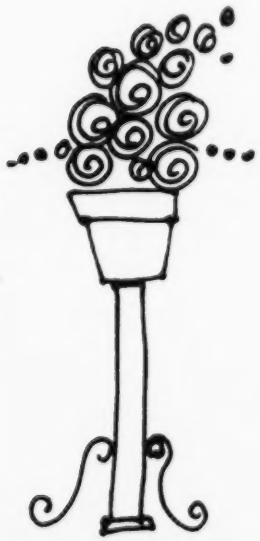
Signed: Julius J. Joker

Witness: Arthur A. Person"

Julius gave you THAT copy. Then he typed out ANOTHER copy. Julius signed HIS copy, and you signed YOUR copy. The witness signed BOTH copies. "3J" gave him $10 for his trouble, and put him on the bus for Florida.

You go back to "3J's" office a year later, and he gives you:

A REAL-KEEN IMPORTED JOKER ENTERPRISES DIGITAL-MECHANICAL-PENCIL-CALCULATOR-WATCH-PERISCOPE-OATMEAL-STIRRING SPOON: priced at $250 (according to Julius!)



When Will I Absolutely Need Money?

WHAT HAPPENED?? List the things that SHOULD have been done with the agreement, such as:

Was the agreement a written one? _____

Was the agreement written or typed in ink? _____

What interest rate did Julius agree to pay? _____

Did he actually agree to PAY the interest? _____

If so, when was he going to pay it? _____

Did both parties to the agreement ("3J" and you) get copies of EXACTLY the same written agreement? _____

How do you know? Did you compare them to make sure they were the same?

_____

Did the witness sign both copies of the agreement? _____

Beside the witness, who else is supposed to sign ALL copies of an agreement? _____

_____

In the case of this agreement, did that happen? _____

Is there a "loop-hole" in the agreement that allows "3J" to get by without paying you any money at all? _____

If so, what is that "loop-hole"? _____

_____

Who priced or placed the value on the Jolly Joker merchandise that "3J" gave you? _____

Do you think it was priced accurately? _____

Julius put an ending date on the agreement, but there is another date that is required on any agreement. What is it? _____

Did Julius include THAT date in the agreement? _____

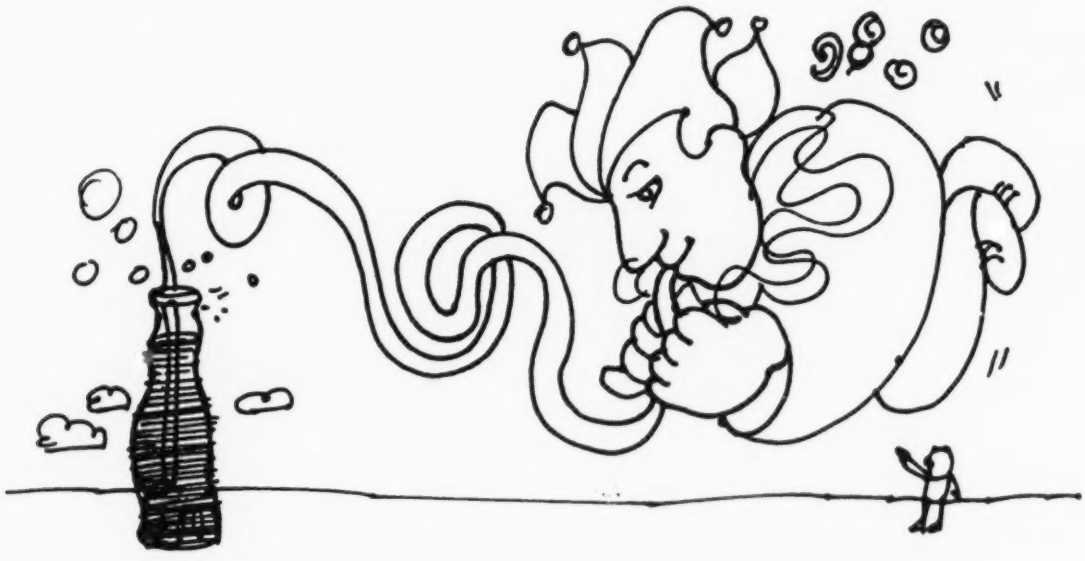
When Will I Absolutely Need Money?

EXAMPLE 3:

"3J" asks you for 50 cents to buy a coke. You still like him. What do you do?

Buy the soft drink for him. This is not a business deal. This is just a friendly soft drink between friends. It doesn't require a written agreement (no CONTRACT needed).

BUT, COUNT YOUR CHANGE !



When Will I Absolutely Need Money?

? ? ? Loan Sharks? ? ?

Above all, you must STAY AWAY from people who you know to be LOAN SHARKS! These people do lend money. But they demand that it be paid back WITH INTEREST SO HIGH that in a week, the amount of the interest can be more than the amount you borrowed. In a few weeks, you might owe more than your business could ever pay back!

EXAMPLE:

You borrow $100. In a few DAYS, you could owe $200 in interest, PLUS the original $100 — a TOTAL of $300!

Fail to pay, and you could be threatened, beaten, or killed. LOAN SHARKS NEVER LET GO!

Remember: Loan Sharking is Not Legal

When Will I Absolutely Need Money?

Other Money Sources

GOVERNMENT SOURCES

There may be some money available from government sources. Some Federal and State programs exist that can give money to entrepreneurs. It helps if you are a minority (by race, where your family came from, or sometimes your gender).

However:

- Don't count too much on getting this money.
- Governments don't usually like to lend or give money to individuals, or to very small businesses run by young people. When governments (Federal or State) talk about "small business", they mean companies with less than 100 to 500 employees! Government is not usually a good source of money for smaller businesses.
- Governments demand a lot of paperwork so people spend considerable time filling out forms.
- With each new election, the money the government gives or lends to you, without much warning, can be:
    - Stopped
    - Given to someone else
    - Continued, with conditions you didn't agree to

Possibly money available through town or city government might be a better idea. There might also be some state funds.

Some cities now have SET-ASIDE programs for small, minority-owned businesses. You could also check with your local Congressman or Congresswoman about possible funding sources for young entrepreneurs.

What If I Can't Barter or Borrow?

Friends, relatives and groups are out. Now what? It's time to hang tough. How much money do you absolutely have to have? How BADLY do you want your business to survive (or to start)?

SELLING POSSESSIONS

What do you own that you can sell?

Again, you can find out just who your real friends are, and who are not. If you must sell one or more of your hard-earned things (bike, car, collection . . .), which friends will buy at a fair value? And who will try to knock down the price just because you must sell?

Perhaps selling to friends is unsuccessful.

You must then:

Look for persons or groups who want
what you have to offer
FOR A FAIR PRICE.

One place to sell a product is in a budget shopper newspaper. Use those that charge you a small fee only AFTER you sell you item. You might also consider having a garage or yard sale.

What If I Need Money?

Nothing To Sell and No Place To Borrow?

Time to hang even tougher, and do the hardest thing of all . . .

BE PATIENT AND GET A JOB!

If your business (business-to-be) is worth it, you'll have to get a job, working for someone else, and save your pay. Save as much of it as you can. Keep your business first in your mind. With luck, the job might be one where you can learn some lessons that will help you do better work when you can start running your own business.

Judge your employer for yourself. If, after a few weeks or months, he or she seems an OK person, you might ask for an after-work talk. Explain your plans and goals. Drop the topic if you get nowhere, and work quietly until you have saved what you need. But, you always have a chance that, suddenly, you will be one business person talking to another. Sometimes breaks can come in this way.

What If I Need Money?

Check Point! Check Your Understanding

1. What is the difference between a loan shark and a financial institution granting loans for small businesses?

2. What is interest and who receives interest when a loan is made?

3. What are some common types of financial institutions which grant loans for business ventures in your local community?

4. How are financial institutions which grant loans different from loans given from groups in the community, such as the Rotary, Chamber of Commerce, etc.?

What If I Need Money?

5. Why might a student in high school have difficulty getting a loan from a financial institution? What is a co-signer for a loan and why will a co-signer generally have to be used if a junior or senior high school aged youth wants to secure a loan from a financial institution?

6. Why should a loan agreement always be in writing?

7. List at least seven features which should be in a loan contract so that it legally stands up in court.

8. Who is a witness to a contract, why should a witness sign a loan contract, and what are at least two qualities that a witness should have if he/she signs a loan contract?

9. Sometimes state and federal governments provides loans and grants to those starting or continuing the operation of a small business. Name one problem of counting on that source for funding for your entrepreneurial venture.

What If I Need Money?

ACTIVITY:

1. Select an organization in your community which would provide either a grant or a loan for an entrepreneurial venture, such as a bank, the SBA office, savings and loan, credit union, or chamber of commerce and set up a time for an interview to address the following issues:

   a. Type and size of loan or grants made to entrepreneurs.

   b. Procedures and requirements for getting a loan or grant.

   c. Percentage of loan or grant applicants for small ventures which secure funding from this source.

   d. Nature of assistance provided to the small business entrepreneur, including how the entrepreneur is helped in setting up and maintaining the business.

CDs THAT GO AROUND

Joseph likes listening to CDs. He has many CDs in his own personal collection. He always used the money he earned and gifts of money to buy CDs and to keep his equipment up to date to get top quality sound. He would sit for hours listening to the "mounds of sound" from the various recordings. He was finding that many of his friends also had a great number of CDs. A number of them seemed to tire of some of the recordings after the group became less popular. He thought of his CDs as personal friends and would play some of his oldies every so often so that he did not forget about having them. He did not find that same characteristic in his friends. Many of them tired fairly quickly of the CDs that they purchased and would set them aside, never to be played again.

In thinking about ways to make money so that he could buy what he wanted, he analyzed his likes, interests, strengths, and ideas which might be appealing to others. He was intrigued with the idea of starting a used CD shop in his town where his friends and others could sell their used CDs or trade them for others.

What If I Need Money?

He did not want a lot of risk so he decided that people would have to bring in their CDs on consignment. He would not buy the CDs from them and then resell them; rather, the owner of the CD would only gain a return if it was sold to another person. Joseph's shop would gain a part of the purchase price of each one sold.

He was very unsure if it was a good idea. He told the idea to one of his best friends, Myrna, who was an organizer. She could see what had to be done for a particular project and do the planning/organizing to get things done. She wasn't much interested in CDs, but still thought it was a great idea. Joseph knew that Myrna had been very successful in a number of business ventures already in her short life. She probably had money which could be used for a business venture like this.

Joseph did not really know where to start since he had never been in business for himself. He wondered if he should talk to the tape/CD store manager in the area where he lived. It would certainly not take too much effort to ask him since Joseph lived close to where the store was located. Help Joseph out by answering the following questions:

1. If Joseph decides to go ahead with opening the used CD shop, list some of the first steps that he will have to go through before he gets started.

2. What are some items that he will need to get started right away?

What If I Need Money?

3. Suppose that Joseph has little money. Specifically indicate how he could get the items mentioned above in order to start the business through the following means:

   a. Bartering

   b. Sharing

   c. Goodwill

   d. Loans or grants

4. Explain why you do or do not believe that Joseph should bring Myrna aboard in a co-venture for this business.

5. Do you think that he should ask the local proprietor of the CD/tape shop whether his idea of opening up a used CD shop is a good one?